Reports of the Board of Directors and Board Committees

Board of Directors' Report

HIGHLIGHTS

01 Adopted the Caisse's strategic orientations based on three pillars: Québec, the world and our people.

02 Approved a strategy to protect the Caisse's overall portfolio to withstand the challenging economic and financial environment.

03 Reviewed succession plans for the members of senior management and for the President and Chief Executive Officer.

BOARD OF DIRECTORS

MANDATE

The Board of Directors is notably mandated to ensure that the Caisse is managed in compliance with the provisions of its incorporating Act and regulations and that the institution takes the necessary steps to fulfill the objectives stated in its mission, namely, is to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development.

During the year, the Board reviewed its mandate and that of its Chairman, in conjunction with the Governance and Ethics Committee.

For a full description of the Board of Directors' mandate, please refer to the Governance section of the Caisse's website (www.lacaisse.com).

COMPOSITION

As at December 31, 2011, the Board consisted of 14 members out of a maximum of 15. Board members include the Chairman, the President and Chief Executive Officer, and independent and non-independent directors. The Act respecting the Caisse stipulates that at least two-thirds of the directors, including the Chairman, must be independent.

In 2011, after consulting the Board, the Government of Québec appointed Denys Jean, President and Chief Executive Officer of the Régie des rentes du Québec, as a non-independent member of the Board for a four-year term. Mr. Jean succeeded André Trudeau, who stepped down as a Board member and as President of the Régie des rentes du Québec during the year.

Table 53 (p. 103) provides information regarding director attendance at Board and Committee meetings in 2011.

COMPENSATION OF DIRECTORS

The compensation of the Caisse's directors is determined by Order-in-Council of the Government of Québec. Under this decree, the following compensation was paid to directors, with the exception of the Chairman (see Table 54, p. 103).

Directors are also entitled to be reimbursed for their travel and living expenses, where applicable.

COMPENSATION OF THE CHAIRMAN OF THE BOARD

Annual compensation of the Chairman of the Board is set by the Government of Québec at $195,000. In addition, the Chairman is entitled to be reimbursed for hospitality expenses incurred in the performance of his duties – up to $15,000 per year.

TABLE 53

DIRECTOR ATTENDANCE AT BOARD AND COMMITTEE MEETINGS FOR 2011[1]

Member	Board of Directors		Audit Committee	Risk Management Committee		Human Resources Committee		Governance and Ethics Committee
	8 reg.	9 spec.	5 reg.	7 reg.	3 spec.	8 reg.	1 spec.	5 reg.
Elisabetta Bigsby	8	7	–	–	–	8	1	–
Claudette Carbonneau	6	7	–	–	–	–	–	5
Louise Charette	8	9	5	–	–	–	–	5
Jocelyne Dagenais	7	8	–	–	–	–	–	–
Michèle Desjardins	8	9	–	–	–	–	–	5
Pierre Fitzgibbon	7	8	5	7	3	–	–	–
Denys Jean	3/3	2/3	–	–	–	–	–	–
A. Michel Lavigne	8	8	4	7	3	–	–	–
Jean Pierre Ouellet	7	9	–	–	–	5/6[2]	1/1	–
Réal Raymond	8	9	–	7	3	–	–	–
François R. Roy	8	9	5	7	3	–	–	–
Michael Sabia	8	9	–	–	–	–	–	–
Ouma Sananikone	7	8	–	7	3	8	1	–
Robert Tessier	8	9	–	–	–	8	1	5
André Trudeau	5/5	6/6	–	–	–	–	–	–

1. Directors justify their absences from regular meetings of a Committee or the Board to the Caisse's Secretariat. During 2011, directors were not able to attend certain meetings, in part or in whole, due mainly to identified conflicts of interest or family or work commitments.
2. During the year, Mr. Ouellet ceased to be a member of this Committee.

TABLE 54

COMPENSATION PAID TO ORDER-IN-COUNCIL INDEPENDENT DIRECTORS[1]

Director	Annual compensation ($)	Compensation as Committee Chair ($)	Attendance fees ($)[2]	Total compensation ($)
Elisabetta Bigsby	17,160	5,363	16,887	39,410
Claudette Carbonneau[3]	17,160	–	12,481	29,641
Louise Charette[4]	17,160	–	19,708	36,868
Michèle Desjardins	17,160	–	14,884	32,044
Pierre Fitzgibbon	17,160	–	20,908	38,068
A. Michel Lavigne[4]	17,160	5,363	23,314	45,837
Jean Pierre Ouellet	17,160	–	14,872	32,032
Réal Raymond	17,160	5,363	18,502	41,025
François R. Roy[4]	17,160	–	23,326	40,486
Ouma Sananikone	17,160	–	24,529	41,689
Total				**377,100**

1. In accordance with the terms of the current Order-in-Council, a 0.75% increase was applied on April 1, 2011 to the annual compensation, to the Committee Chairs' compensation and to the attendance fees.
2. The attendance fee for each special or short Board or Committee meeting, held by conference call, is half of the attendance fee allowed for a regular meeting.
3. For the first half of the year, this director did not receive her compensation directly, as per her instructions to the Caisse.
4. These directors received attendance fees for attending an Audit Committee meeting of the Caisse's real estate subsidiaries.

Board of Directors' Report

ACTIVITY REPORT

Compliance with the Act respecting the Caisse
Throughout the year, the Board ensured that the Caisse's activities complied with the Act and relevant regulations. In addition, the Board approved changes to its Regulation Respecting Internal Management.

Strategic orientations
The Caisse's most recent strategic planning exercise was split into two parts. The first part consists of five strategic priorities approved by the Board in 2009, the implementation of which was completed or initiated in 2009, 2010 and 2011. For a detailed report in this regard, please refer to the Board of Directors' Report in the Caisse's 2010 Annual Report.

The Board was able to assess, as will be elaborated upon later in this report, that the efforts associated with this first part – to strengthen risk management, refocus the portfolio on core businesses and maintain a robust liquidity level – helped the Caisse be in a better position to withstand the high volatility observed in economic and financial markets throughout 2011.

The Board and senior management developed the second part of the strategic planning exercise in the context of this volatility and turbulence. The Board approved strategic orientations in response to major structural changes resulting from the rise of emerging countries and the significant challenges facing depositors. The main aim of these orientations is to ensure that the Caisse is poised to take advantage of the investment opportunities afforded by the turbulence and structural changes.

These strategic orientations are based on three pillars: Québec, the world and our people.

Québec
The Board supported senior management with respect to its three commitments to economic development in Québec, namely investing in the most promising Québec businesses, serving as a bridge between Québec and the rest of the world and developing entrepreneurship. For further information, please see the Contribution to Québec's Economic Development section on page 67.

The world
The Board approved the overall strategy presented by the Caisse's senior management, which is rooted in private investments, equity investments and greater exposure to emerging markets.

Private equity
To make the most of the expertise of its teams and achieve less volatile returns, the Caisse plans to step up its investments in infrastructure, private equity and real estate. Accordingly, the Board approved the consolidation of the Caisse real estate subsidiaries specializing in retail businesses and office buildings under the Ivanhoé Cambridge banner.

Equity market investments
The Board approved the change proposed by senior management according to which the Caisse will gradually migrate a portion of its portfolio toward an absolute investment model, with business performance at the heart of its analysis.

Emerging markets
Given the vitality and growth of the economies in emerging countries, the Caisse needs to develop a strategy to increase the level of its investments in these countries. The Board approved senior management's recommendation of using a mix of internal and external resources and partnerships for its investments in emerging countries that are the most likely to generate the best business opportunities.

Our people
The Caisse teams will require extensive expertise and in-depth knowledge as they work toward achieving the goals stemming from the aforementioned strategic orientations. The Board supported senior management in its commitment to fostering the Caisse's growth and adding significant operations analysis and geopolitical skills to its financial expertise.

Business plan
The Caisse's sectors all delivered a presentation to the Board regarding their annual business plan, integrating goals associated with strategic priorities and day-to-day management, as well as initiatives designed to promote the optimal use of resources. The Board adopted the Caisse's business plan and the annual budget and received regular progress reports on the Caisse's operations from senior management.

The Board was able to effectively oversee the activities of the Caisse and the development of strategic priorities and make a constructive contribution to the process.

Financial results, internal controls and management systems

With the assistance of the Audit Committee, the Board fulfilled its responsibilities with respect to financial results and internal controls, in particular by reviewing quarterly financial statements, approving the Annual Combined Financial Statements, evaluating the integrity of the controls applied to various data used to prepare annual and interim financial statements and related notes and monitoring internal audits.

Moreover, the Board received reports analyzing the returns of the Caisse's various investment sectors. It approved the press releases announcing the Caisse's annual and interim financial results, as well as its Annual Report. It also approved changes proposed to the Internal Control Policy in order to improve the effectiveness of the Caisse's oversight operations.

See page 107 of the Report of the Audit Committee for more information on the responsibilities of this committee and the Board.

Risk management

The Board, with the assistance of the Risk Management Committee, ensured that the Caisse's risk management tools were enhanced throughout 2011, specifically as regards credit risk measurement and the stress tests used to simulate adverse market conditions, such as the European sovereign debt crisis, the political upheaval in the Middle East and North Africa, the aftermath of the natural disasters in Japan and the financial situation in the United States.

Accordingly, the Board approved an underweight strategy for the Equity portfolios given the increased market risk, particularly as it related to the sovereign debt crisis in Europe. The Board also authorized the review of several risk oversight measures, including certain additions to the Integrated Risk Management Policy and a new framework focusing on issuers' credit risk. In addition, the Board received a report on the oversight of all financial derivative instruments held in the Caisse's portfolios. It also tracked major investments with a significant impact on portfolio risk levels and concentrations.

For more details on the activities of the Board and the Risk Management Committee, see the Report of the Risk Management Committee on page 126.

Senior management supervision

The Board, assisted by the Human Resources Committee, adopted the detailed objectives of the President and Chief Executive Officer for 2011. The Board also reviewed the performance of the President and Chief Executive Officer based on the objectives set at the beginning of the year and concluded that his contribution had once again largely exceeded these targets.

The Board examined the President and Chief Executive Officer's evaluation of senior executives' performance, as well as the succession plans for the President and Chief Executive Officer and other senior management positions. On the Human Resources Committee's recommendation, the Board approved the 2011 salary conditions and the level of incentive compensation to be paid to members of senior management. It also authorized the appointment and compensation of two new Executive Committee members.

Maarika Paul, Executive Vice-President and Chief Financial Officer, was put in charge of monitoring financial performance, overseeing treasury operations, measuring and analyzing returns, preparing accounting and financial information, controlling operating expenses, applying best practices in financial governance and managing business services.

Pierre Miron, Executive Vice-President, Operations and Information Technology, was entrusted with the responsibility of continuing the repositioning work initiated two years ago by the Operations and Information Technology teams. He ensures that the group's activities are consolidated to enhance the efficiency of the Caisse's operational activities and simplify its technological environment.

Moreover, to contribute to achieving the objectives associated with the strategic priorities for the "Our people" pillar, the Board, via its Human Resources Committee, lent its support to senior management in the implementation of programs aimed at strengthening the leadership skills of team leaders, developing employees' strengths and creating a work environment that stimulates productivity and promotes talent retention.

See page 112 of the Report of the Human Resources Committee for more information on the responsibilities of this committee and the Board.

Board of Directors' Report

Corporate governance

The Board, assisted by the Governance and Ethics Committee, ensured that high standards in terms of governance practices were upheld. This included holding discussion sessions with the President and Chief Executive Officer without the presence of other senior management members as well as in camera discussion sessions. The Board also, by way of the Governance and Ethics Committee, reviewed the Director Code of Ethics and Professional Conduct and the Caisse Officer and Employee Code of Ethics and Professional Conduct, examined statements of interest submitted by each director and approved an amendment to the directive on the review of transactions involving securities of companies that have ties to a Caisse director.

The relationship between the Board and senior management, which is intended to be constructive and rooted in trust, was also enhanced through senior management presentations at meetings held the day before the Board convened.

See page 110 of the Report of the Governance and Ethics Committee for more information on the responsibilities of this Committee and the Board.

Report of the Audit Committee

HIGHLIGHTS

01 Reviewed the financial statement preparation process.

02 Reviewed the Internal Control Policy and the financial certification process.

03 Monitored the implementation of Internal Audit recommendations.

AUDIT COMMITTEE

MANDATE

The Audit Committee plays an essential role in ensuring good financial governance at the Caisse. It oversees the compliance of the organization's financial statements with respect to its financial position and ensures that adequate and effective internal control mechanisms and a risk management process are in place.

During the year, the Audit Committee reviewed its mandate and that of its Chair, in conjunction with the Governance and Ethics Committee.

For a full description of the Audit Committee's mandate, please refer to the Governance section of the Caisse's website (www.lacaisse.com).

COMPOSITION (as at December 31, 2011)

Four independent members, including professionals with accounting or financial expertise, possessing the necessary experience and knowledge to read and understand financial statements and properly fulfill their role. The Chairman of the Board attends Audit Committee meetings.

- Chair: A. Michel Lavigne (guest member at Risk Management Committee meetings)
- Members: Louise Charette, Pierre Fitzgibbon and François R. Roy

ACTIVITY REPORT

Number of meetings in 2011: 5

The Committee provided a verbal and written report on its activities to the Board of Directors after each meeting. During Committee meetings, members also met without the presence of senior management. The following report, which was approved by the members of the Committee, describes the main issues that were the subject of discussion or decisions during the year.

Report of the Audit Committee

Financial reporting

During the year, the Committee welcomed Maarika Paul, the new Chief Financial Officer, with whom a close working relationship quickly developed.

In 2011, the Committee fulfilled its responsibilities with respect to financial reporting as follows:

- Reviewed the 2010 Combined Financial Statements with the Auditor General of Québec and the co-auditors, Ernst & Young, and reviewed several items, including:
  - the financial statement preparation process;
  - the valuation of over-the-counter liquid investments, illiquid investments and ABTNs;
  - the validation of the notional amount of derivative instruments by an external firm;
  - the audit, by an external firm, of returns to ensure their calculation and presentation complies with industry standards.
- Verified that an independent valuation of the fair value of over-the-counter liquid investments, private equity investments, ABTNs and the Caisse's real estate assets has been carried out, including:
  - the independent review of valuation data for certain private equity investment files and the valuation of the fair market value of certain other private equity investment files by a recognized firm;
  - the independent external valuation of the fair value of certain liquid securities, real estate debt securities and corporate debt portfolio securities.
- Reviewed the report on the financial certification process that enables the President and Chief Executive Officer and the Acting Chief Financial Officer to certify publicly that disclosure controls and procedures and internal financial reporting controls are adequate and effective.
- Submitted to the Board recommended changes to the Information Disclosure Policy and the Internal Control Policy.
- Had members of the Caisse's Audit Committee attend meetings of the real estate subsidiaries' audit committees and reviewed the annual balance sheets of these committees.
- Recommended the adoption of the Annual Financial Statements to the Board.
- Received the co-auditors' report submitted to the Caisse's senior management following their audit.
- Reviewed press releases pertaining to the Caisse's financial results.
- Reviewed quarterly financial statements, operating expense budget monitoring reports and year-end budget estimates.
- Discussed with the co-auditors their plan for auditing the Caisse's financial results.
- Discussed with the co-auditors their internal quality control procedures.
- Monitored the External Auditor Independence Policy and submitted a recommendation to the Board regarding Ernst & Young's audit fees.
- Reviewed and monitored the decisions of Canadian and international authorities on the application of international financial reporting standards, and monitored the preparatory work for implementing these standards.
- Held regular discussions with Finance personnel without the presence of senior management.
- Held regular meetings with the co-auditors without the presence of senior management to discuss various aspects of their mandate.

Internal Audit

Reporting to the Audit Committee, Internal Audit helps the Caisse achieve its objectives by providing an independent, objective evaluation of risk management, control and corporate governance processes, and making proposals to enhance their effectiveness.

Accordingly, in 2011, the Committee carried out the following activities with the Vice-President, Internal Audit:

- Reviewed and adopted the 2011 Internal Audit Charter and Internal Audit Plan.
- Reviewed the 2011 business plan of the Vice-President, Internal Audit.
- Reviewed Internal Audit's progress reports, in relation to the internal audit plan and specifically addressing internal control mechanisms, risk management processes and the optimal use of resources.
- Monitored the implementation of Internal Audit's recommendations by the Caisse's senior management.
- Reviewed status reports on the working relationship between the Caisse's Vice-President, Internal Audit, and the internal audit teams of the real estate subsidiaries.
- Discussed the Caisse's continuous audit program.
- Evaluated the performance of the Vice-President, Internal Audit.
- Ensured that the Internal Audit team can act independently from the Caisse's senior management.
- Held regular discussions with the Vice-President, Internal Audit, without the presence of senior management.

Internal controls and plan for the optimal use of resources

The Committee reviewed many aspects of internal controls and the optimal use of resources during the year. This included the following activities:

- Discussed senior management's overall evaluation and the internal audit of the design and effectiveness of the general control environment.
- Reviewed Internal Audit's findings on processes and controls related to the general control environment and information technology.
- Reviewed quarterly reports on compliance with investment limits as specified in the Act respecting the Caisse.
- Monitored the investments made under the last paragraph in Section 37.1 of the Act respecting the Caisse.
- Reviewed the delegation of authority and submitted a number of recommended changes to the Board.
- Monitored and analyzed the expected outcomes of activities implemented to promote the optimal use of resources, namely, initiatives focusing on efficiency, effectiveness and resource conservation.
- Held discussions about integrating initiatives aimed at promoting the optimal use of resources within the strategic planning process and establishing business plans for the various sectors in order to align these initiatives with the Caisse's strategic orientations.

Risk management

The Board of Directors established the Risk Management Committee to support the Audit Committee in exercising its responsibility to implement a risk management process. The Audit Committee therefore carried out the following activities to monitor all risk management efforts:

- It received copies of the minutes of Risk Management Committee meetings.
- It received a copy of the certificates of compliance with depositors' investment policies and the investment policies of the Caisse's specialized portfolios.
- The Chair of the Audit Committee attended Risk Management Committee meetings.

USE OF EXTERNAL EXPERTS

The Audit Committee did not use the services of an external expert in 2011. However, it supported senior management when it used external firms for an independent review of the fair value of private equity, certain liquid securities, real estate assets, mortgage-backed securities and ABTNs.

Report of the Governance and Ethics Committee

HIGHLIGHTS

01 Approved a continuing education program for Caisse directors to allow them to discuss issues related to the performance of their role.

02 Examined the report on the exercise of the Caisse's voting rights with respect to its portfolio companies and discussed the underlying principles.

03 Revised the codes of ethics and professional conduct in effect at the Caisse.

GOVERNANCE AND ETHICS COMMITTEE

MANDATE

The Governance and Ethics Committee ensures that the Caisse adheres to the highest governance and ethics standards. The Committee's responsibilities include reviewing the structure, composition, performance and operations of the Board and its committees.

The Committee reviewed its mandate and that of its Chair in 2011.

For a full description of the Governance and Ethics Committee's mandate, please refer to the Governance section of the Caisse's website (www.lacaisse.com).

COMPOSITION (as at December 31, 2011)

Four independent members:

- Chair: Robert Tessier
- Members: Claudette Carbonneau, Louise Charette and Michèle Desjardins

ACTIVITY REPORT

Number of meetings in 2011: 5

The Committee provided a verbal and written report on its activities to the Board of Directors after each meeting. During Committee meetings, members also met without the presence of senior management.

The following report, which was approved by the members of the Committee, describes the main issues that were the subject of discussion or decisions during the year.

The Committee ensured high-level adherence to governance practices in 2011. To this end, it carried out the following activities.

The Board and its committees

- Reviewed the responsibilities outlined in the mandates of the Board, its committees and their chairs.
- Reviewed the responsibilities delegated to the President and Chief Executive Officer, as outlined in his mandate.
- Ensured that key individuals either within the Caisse's management or externally are available to explain various items on the agenda of Board meetings, and that there is enough time for a full discussion.
- Ensured that the Board has all the information and time it needs to analyze issues of importance to the Caisse.
- Verified throughout the year that discussion sessions are held without the presence of senior management and ensured that there is adequate time for full discussion by the directors.
- Discussed and recommended to the Board a continuing education program for Caisse directors, including presentations at Board meetings as well as outside this formal framework, in order to allow directors to discuss issues related to the performance of their role.
- Received and analyzed a report on the governance of state-owned enterprises.

Composition of the Board and committees
The Committee reviews the composition of the committees and the Board annually to ensure that members have the experience and skills required to contribute fully to the work of these bodies. To this end:

- The Committee reviewed, in collaboration with the Human Resources Committee, the expertise and experience profile of independent directors.
- The Chair of the Committee analyzed the Board's composition, each director's term of office and the Board's skills and expertise as a whole.
- The Committee recommended the composition and chairmanship of the committees to the Board.
- The Committee recommended the appointment of a non-independent director to the Board.

Evaluation of committee and Board operations
- Reviewed the process for evaluating the performance of the Board, its Chair and its committees, including the self-evaluation of directors.
- Analyzed the Board and committee evaluation results and recommended improvements to certain processes, as required.

Code of Ethics and Professional Conduct
The Committee reviewed the Code of Ethics and Professional Conduct in effect. To this end, the Committee:

- Reviewed the Director Code of Ethics and Professional Conduct, interpreted Code provisions as required for its implementation and presented a report to the Board.
- Received the report on the implementation of the Caisse Officer and Employee Code of Ethics and Professional Conduct and reviewed this code.
- Examined, on behalf of the Board, statements of interest submitted by the directors in accordance with the provisions in effect and transmitted these statements to the authorities designated by the Act respecting the Caisse.
- Submitted to the Board recommended changes to the directive on the review of transactions involving securities of companies that have ties to a Caisse director and followed up on the implementation of this directive.

Caisse
- Discussed directorship applications for the Caisse's real estate subsidiaries.
- Analyzed and discussed the process for appointing directors to the boards of portfolio companies.
- Submitted to the Board recommended changes to the Regulation Respecting Internal Management in order to clarify conditions related to employees' engagement in political activities.
- Received the report on donations and sponsorships granted during the year and submitted to the Board recommended changes to the policy on donations and sponsorships.

Policy on Responsible Investment
The Caisse has adopted a Policy on Responsible Investment. In this regard, the Committee:

- Discussed the implementation of the Policy on Responsible Investment.
- Examined the report on the exercise of the Caisse's voting rights with respect to its portfolio companies and discussed the underlying principles.

USE OF EXTERNAL EXPERTS

The Governance and Ethics Committee did not use the services of an external expert in 2011.

Report of the Human Resources Committee

HIGHLIGHTS

01 Reviewed integrated talent management strategies.

02 Validated the alignment of the Compensation Policy with the Caisse's strategic objectives.

03 Analyzed different management indicators.

HUMAN RESOURCES COMMITTEE

MANDATE

The mandate of the Human Resources Committee is to review human resource management strategies and, in particular, performance evaluation, succession planning, executive compensation and the Caisse's general human resource practices.

In 2011, the Committee reviewed its mandate and that of its Chair, working with the Governance and Ethics Committee.

For a full description of the mandate of the Human Resources Committee, please consult the Governance section of the Caisse's website (www.lacaisse.com).

COMPOSITION (as at December 31, 2011)

The Committee is composed of three independent members:

- Chair: Elisabetta Bigsby
- Members: Ouma Sananikone and Robert Tessier

ACTIVITY REPORT

Number of meetings in 2011: 9

During the year, the Committee paid special attention to integrated talent management, focusing on:

- Succession planning
- Talent management programs and measures of success
- The incentive compensation policy

After each meeting, the Committee provided a verbal and written report on its activities to the Board. In addition, at each meeting, Committee members met without the presence of members of management. This report, approved by Committee members, reports highlights of their work.

Executive

The Committee considered Mr. Sabia's 2011 objectives as President and Chief Executive Officer and recommended that the Board of Directors approve them. It also reviewed Mr. Sabia's proposed appointments to the Caisse's Executive Committee.

In addition, the Committee reviewed the following items, recommending them to the Board for approval:

- Performance evaluations of members of the Executive Commitee and determination of their total compensation (base salary, incentive compensation, pension plan and benefits);
- Total compensation conditions for the President and Chief Executive Officer;
- Succession plan for executive positions and the position of President and Chief Executive Officer.

Integrated talent management strategies and key policies
In 2011, the Committee discussed several integrated talent management strategies and key policies designed to provide the Caisse with truly integrated talent management. To this end, the Committee:

- Established certain organizational development priorities;
- Analyzed different management indicators, including indicators on operational risk management related to human resource management;
- Reviewed professional and leadership development programs for Caisse employees;
- Reviewed the performance management strategy;
- Reviewed the 360° evaluation project for members of the Executive Commitee and the President and Chief Executive Officer;
- Reviewed and discussed objectives to ensure adequate representation of women in investment positions and as part of succession plans;
- Reviewed and discussed the proposed approach regarding employee engagement;
- Reviewed the *Mieux faire et être* initiatives implemented throughout the year;
- Reviewed the employee direct compensation structure for 2012 and recommended it to the Board of Directors for approval.

Independent members on the Board of Director
The Committee reviewed the expertise and experience profile of independent members of the Board of Directors in collaboration with the Governance and Ethics Committee.

Use of external experts
The Board of Directors and its committees may, in exercising their functions, use external experts. In establishing the incentive compensation program and monitoring its implementation, the Committee and the Board used the services of Hugessen Consulting, an independent consulting firm recognized for its expertise in the compensation of personnel working in the pension fund sector. The Committee considers Hugessen's recommendations, but makes its own decisions that may be based on information other than that contained in Hugessen's recommendations.

COMPENSATION POLICY

Committee's work on compensation
During 2011, the Committee – supported by its advisor Hugessen Consulting – ensured that the compensation policy adopted in 2010 would meet its strategic objectives of paying for long-term performance, offering competitive compensation and linking the interests of executives and depositors. The Committee reviewed how the Caisse's compensation policy had been applied; it analyzed the proposed incentive compensation and proposals relative to the implementation of the co-investment program and ensured that these proposals were aligned with the compensation policy and market practices.

Accordingly, the Committee analyzed and recommended the following to the Board for approval:

- Certain adjustments required to be made to the incentive compensation program for years subsequent to 2010;
- The amount of incentive compensation to be paid based on the incentive compensation program;
- The conditions of the deferred and co-invested incentive compensation program.

Moreover, the Committee received an update on compensation market trends with regard to salary reviews. It also discussed salary conditions for the Caisse's employees in 2012, recommending them to the Board for approval.

Regulation Respecting Internal Management
The Caisse's compensation policy is governed by Appendix A of the Regulation Respecting Internal Management, revised by government decree in 1996. This policy:

- Defines maximum levels of total employee compensation and reference markets;
- Indicates that the data reflecting the reference market profile must be compiled by a recognized independent firm through an annual survey and must be administered and analyzed according to a generally accepted methodology and rules in this field;
- Stipulates that the Caisse's payroll must not exceed 100% of the salary-scale midpoint.

Report of the Human Resources Committee

Reference markets and compensation level positioning[1]

For the President and Chief Executive Officer position, the reference market consists of a sample of eight large Canadian pension funds as listed in Table 61 (p. 121). For this position, total compensation must be between the median and third quartile (75th percentile) of the reference market, depending on whether the Caisse's performance is average or superior.

For investment duties, the Canadian institutional investment market serves as the reference. This must include a representative sample, including institutions, insurance companies, trust companies, pension funds, investment advisors, brokerage firms and fund managers or their counterparts in similar industries. The current sample comprises the 57 organizations listed in Table 59 (p. 120). For these positions, total compensation must be below the top 10 percent (90th percentile) of the reference market.

For non-investment duties, the Québec market serves as the reference, which must include public sector jobs. It therefore contains a representative sample of large public- and private-sector Québec firms and private financial companies. The current sample comprises the 48 organizations listed in Table 60 (p. 121). For these positions, total compensation must be at the third quartile (75th percentile) of the reference market.

In 2011, the Caisse retained the services of Towers Watson for benchmarking its reference markets. The company selection criteria for the reference markets include: size, industry, companies that recruit talent similar to the profiles sought by the Caisse, organizations offering innovative and diverse investment products, firms recognized for best practices in human resources, companies with performance-driven cultures and businesses participating in the Towers Watson database.

Strategic objectives of the compensation policy

The Caisse must rely on highly skilled employees who enable the institution to fulfill its mission, which is to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development.

The total compensation policy therefore pursues the following three objectives:

1. **Pay for performance:** Incentive compensation should be proportional to the returns delivered to depositors. This goal has four key components:
   - **Long-term focus:** recognize consistent performance over many years.
   - **Risk-return balance:** encourage prudent risk-taking to make it easier to produce sustainable, long-term returns for depositors, taking into account their risk tolerance.
   - **Overall evaluation:** strike a balance between individual, portfolio and Caisse performance.
   - **Emphasis on the Caisse's overall perspective:** increased weighting of employees' contributions to supporting the Caisse's strategic priorities and overall performance, including giving greater weight to leadership and desired behaviours.
2. **Offer competitive compensation:** Attract, motivate and retain employees with experience and expertise that allow the Caisse to attain its strategic objectives, within the guidelines contained in the Regulation Respecting Internal Management presented in the previous section.
3. **Link the interests of executives and depositors:** Ensure that their individual and team efforts are oriented toward the Caisse's long-term, sustainable success.

   This objective is supported by an incentive compensation program, introduced in 2010 and discussed on page 117 of this annual report, which recognizes consistent performance over a four-year period with incentive compensation and deferral of a portion of this incentive compensation over a three-year period. This mechanism serves the objective of linking the interests of executives and depositors by having these amounts vary with the absolute return generated for depositors.

Finally, the Caisse's incentive compensation policies comply with the Principles for Sound Compensation Practices issued by the Financial Stability Forum (FSF) and endorsed by G20 nations: effective compensation governance; an alignment between compensation and long-term, prudent risk-taking; and regular review of compensation practices.

1. For compensation purposes, the first quartile ranges from the 1st to 25th percentile, the second quartile from the 26th to 50th percentile, the third quartile from the 51st to the 75th percentile and the fourth quartile from the 76th to 100th percentile.

Components of total compensation
For the Caisse's employees, total compensation is based on four components:

1. Base salary
2. Incentive compensation
3. Pension plan
4. Benefits

Base salary
The Regulation Respecting Internal Management states that the average base salary must not exceed the salary-scale midpoint. Within these parameters, the annual base salaries are set according to prevailing reference market salary conditions. Furthermore, the base salaries of certain employees may have been adjusted during the year to reflect changes in responsibilities or due to exceptional circumstances. Each year, the Human Resources Committee submits the payroll budget to the Board for approval.

For 2011, the Board of Directors approved the following recommendations made by the Caisse's management:

- To maintain salary scales for all positions;
- To freeze salaries of members of the executive;
- To pay a 1.6% merit increase in the payroll budget, which is below the median of the market increase forecasts.

Incentive compensation
In the investment community, incentive compensation is an essential part of the compensation package for employees because it aligns financial incentives with clients' performance objectives.

Incentive compensation at the Caisse serves to recognize performance, attainment of objectives and the contribution to strategic achievements. Incentive compensation is an essential part of total compensation, so it directly influences the total compensation level and its position relative to the reference market.

Components of the performance incentive compensation
Performance incentives are never guaranteed; they depend on evaluations of performance criteria as established by the incentive compensation program. Accordingly, employees receive performance incentives based on the three factors outlined in Figure 55.

2010-2012 transition period
Although the Regulation Respecting Internal Management allows for superior performance to be recognized by total compensation up to the top 10 percent (90th percentile) or the third quartile (75th percentile), depending on the position, the Caisse's incentive compensation program limits the amount of incentive compensation during a three-year transition period (2010 to 2012).

Given that this is the second year of the new incentive compensation program, which is structured to cover four years of returns, the Caisse introduced limits on the payments possible under its incentive compensation program, which came into effect in 2010. The purpose of this interim measure is to ensure that the first objective of the program, which is to reward sustained performance over several years, is respected.

FIGURE 55

PERFORMANCE INCENTIVE FACTORS

RESULT OF THE LEVEL OF ATTAINMENT OF INDIVIDUAL OBJECTIVES	→	Individual contribution
BASED ON THE LEVEL OF ATTAINMENT OF THE ORGANIZATION'S OBJECTIVES OR THE SPECIALIZED PORTFOLIO'S RETURN OF EACH SECTOR	→	Portfolio return or business plan achievement
BASED ON THE LEVEL OF ATTAINMENT OF THE CAISSE'S RETURN OBJECTIVES	→	Caisse overall return

Report of the Human Resources Committee

2011 achievements

In 2011, the Caisse generated a return of 4.0%, representing $5.7 billion in net investment results:

- This result places the Caisse in the first quartile according to the RBC Dexia Investor Services study – Plans over $1 billion.
- Thirteen of the seventeen portfolios posted positive results.
- The Caisse's five strategic priorities were successfully implemented.

For the three-year period ended December 31, 2011, the Caisse's annualized return was 9.1%. Since December 31, 2008, depositors' net assets grew $38.9 billion. This growth is attributable to $35.2 billion in net investment results, in addition to $3.6 billion in net deposits.

Furthermore, the Caisse also achieved other key strategic objectives in its business plan, including:

- Development of strategic priorities to deliver the required performance in a global economic and financial environment undergoing profound structural changes. These strategic priorities were developed in 2011. Their implementation, which began in 2011, will continue through 2012 and 2013.
- Strong growth in the Caisse's assets in Québec through $2.1 billion in new investments and commitments in over 100 businesses. The Caisse's assets in Québec grew $4.7 billion, reaching $41.2 billion as at December 31, 2011. The Caisse undertook several initiatives to strengthen its leadership position in Québec, in terms of both its investments and its business development and visibility (see the Contribution to Québec's Economic Development section, p. 67).
- Decrease in the expenses-to-average net assets ratio, from 19.4 cents per $100 in 2010 to 18.0 cents per $100 in 2011. This makes the Caisse one of the leaders in its category of institutional fund managers (see Figure 68, p. 140), despite a slight increase in total operating expenses. The increase in total operating expenses including external management fees, which grew from $269 million in 2010 to $278 million in 2011, is mainly due to the recruitment of personnel needed in the Information Technology and Research sectors.
- Balance maintained between performance and risk, including:
  - Lower absolute risk, in a turbulent market environment, which fell from 31.4% at the end of 2010 to 29.9% at the end of 2011, and lower active market risk, which declined from 4.2% to 3.7% over the same period.
  - Healthy liquidity level maintained, allowing the Caisse to honour potential commitments, even in the event of a major market correction.
  - The overall leverage ratio (liabilities over total assets) was maintained at a low level of 17% as at December 31, 2011.
- The ratings agencies (Standard & Poors, Moody's and DBRS) reconfirmed the Caisse's investment grade credit rating with a stable outlook, given its strong financial position.
- Merger and restructuring of the real estate subsidiaries and implementation of a new strategy based on our operational expertise and on assets in countries where the Caisse has a strategic advantage.
- Improved capacity to conduct research and analyze economic and financial trends. The recruitment of world-class experts improved the Caisse's understanding of the macroeconomic and financial environment and changes in the global competitive environment, as well as helped the Caisse to better grasp the issues surrounding the European crisis and its potential impacts on the Caisse's assets.

TABLE 66

TOTAL COMPENSATION RANKING BY POSITION TYPE

Position type	Maximum total compensation under the Regulation[1]	Total compensation paid in 2011 relative to reference markets' target compensation[2]
Investment duties	90th percentile	Between 54th and 60th percentile
Non-investment duties	75th percentile	

1. Maximum total compensation refers to percentile positions found in Schedule A of the Regulation Respecting Internal Management, revised by government decree in 1996.
2. Despite above-target performance over two years (2010 and 2011), total compensation paid in 2011 is close to the median due to measures applicable to the transition period described on page 115 of this annual report.

2011 performance incentives

Due to the application of incentive payment limits in 2011, the total compensation of the Caisse's employees was close to the median in 2011, even if the performance reaches the first quartile. More specifically, a study by Towers Watson indicated that the total employee compensation ranges from the 54th to the 60th percentiles in reference markets for a target performance level (see Table 56).

The opinion presented by Hugessen Consulting to the Caisse's Board of Directors stated:

"We reviewed the Caisse's returns and benchmarch indexes for 2011, as well as the factors that contributed to the Caisse's return, and we are satisfied. We can confirm, among other things, that the value-added calculations, the 2011 return multiples, the 2010-2011 average return multiples and the 2011 incentive compensation multiples are consistent with the Caisse's incentive compensation program. In our opinion, the total amount of incentive compensation awarded under the program in 2011 is reasonable based on market conditions, considering the Caisse's performance in 2010 and 2011."

Deferred and co-invested performance incentives

To strike a balance between short- and long-term incentive compensation based on financial sector practices in this area, the program makes it mandatory to defer a minimum of 40% of total incentive compensation for members of the Executive Commitee and, during the transition period that ends in 2012, 25% of that for managers and high-level professionals, into a co-investment portfolio.

Also in 2011, the Caisse offered managers and high-level professionals the option of deferring and co-investing an additional portion of the 2011 incentive compensation payable in 2012 in a co-investment portfolio. This volountary participation grew the amounts deferred and co-invested by an average of 30%.

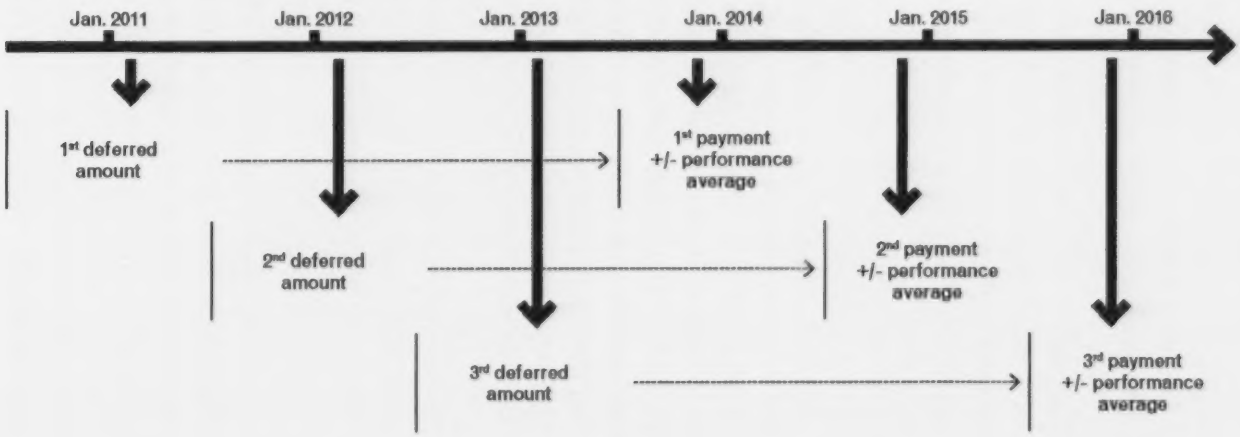
The purpose of the co-investment portfolio is to better align the long-term interests of employees with the most influence on the Caisse's organizational and financial performance with those of depositors. The value of the deferred and co-invested performance incentive amounts will vary – upward or downward – with the Caisse's overall mean absolute returns during the incentive deferral period.

At the end of each three-year period, the deferred amount, plus or minus the performance credit for the period, will be paid to each participant as a deferred incentive payment with restrictions. Figure 57 illustrates this mechanism.

Executives have three years to contribute at least the equivalent of their base salary into the co-investment account.

FIGURE 57

DEFERRED AND CO-INVESTED PERFORMANCE INCENTIVES



Report of the Human Resources Committee

Pension plan

All employees participate and contribute to one of two defined benefit pension plans – either the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP), depending on their position. In addition, executives participate in the Supplemental Pension Plan for Designated Officers (RSRCD). Under both plans, these executives are entitled to receive, after the normal age of retirement, a total annual pension equal to 2% of their eligible earnings for each year or fractional year of plan participation, taking into account the annual tax limits imposed by the Canada Revenue Agency for each year they were not RSRCD members.

Certain executives will be granted additional years of service to RSRCD, depending on the particular circumstances of their hiring or promotion. No changes were made to the plan in 2011.

Benefits

Employees enjoy a range of competitive benefits, including group insurance (such as medical, dental and life insurance). Moreover, executives enjoy fringe benefits that mainly cover the costs associated with car allowances. The Caisse also requires its officers to undergo yearly health checkups. No changes were made to benefit plans in 2011.

President and CEO's performance and total compensation review

Performance review

In early 2011, the Committee recommended a series of non-financial objectives to the Board for review and approval. These approximately 20 corporate objectives had been proposed by the President and Chief Executive Officer with the goal of attaining targets related to the Caisse's strategy and business plan.

The Human Resources Committee performed an evaluation of the following: the strengthening of the Caisse's activities in Québec; its strategies and its investment tools; relations with depositors; decision-making processes; governance of the real estate subsidiaries; talent management; and the positioning of the Caisse.

In addition, the Committee received a summary of an evaluation made by the executives.

At the end of the process, a report was submitted to the Board of Directors, which was highly satisfied with the performance of the President and Chief Executive Officer and congratulated him on the financial results obtained and the progress made toward achieving the strategic vision and carrying out the business plan.

FIGURE 59

PERFORMANCE INCENTIVE FACTORS OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

CAISSE OVERALL RETURN	→	Based on the level of attainment of the Caisse's return objectives
ACHIEVEMENT OF THE ORGANIZATION'S OBJECTIVES	→	Based on the level of attainment of the organization's objectives
INDIVIDUAL CONTRIBUTION	→	Result of the level of attainment of individual objectives

Total compensation review

Compensation and other employment conditions for the President and Chief Executive Officer are based on parameters set by the government in consultation with the Board of Directors.

In accordance with his wishes, Mr. Sabia has received no salary increase and has not been granted any incentive compensation since he took office in 2009. This is why his base salary was unchanged at $500,000 in 2011.

The President and Chief Executive Officer's annual incentive compensation was determined on the basis of the three components presented in Figure 58.

This year, the component related to overall performance is the Caisse's two-year return (2010 and 2011). In 2010, the Caisse's overall portfolio posted net investment results of $17.7 billion and an absolute return of 13.6%. The Caisse's overall return therefore outperformed that of its benchmark portfolio of $5.1 billion. In 2011, net investment results totaled $5.7 billion and the absolute return was 4.0%, $366 million below the benchmark portfolio. For 2010 and 2011, the annualized two-year return stood at 8.7%, $4.7 billion above the benchmark portfolio.

The Committee and the Board of Directors qualified Mr. Sabia's performance as superior in his achievement of corporate and individual objectives set at the beginning of the year.

Like all other executives subject to the incentive compensation program, the President and Chief Executive Officer is required to defer a minimum of 40% of the incentive compensation granted to him in a co-investment portfolio. To achieve the annual objectives, the Board of Directors granted Mr. Sabia $400,000 in incentive compensation and Mr. Sabia elected to defer an amount of $800,000 to the co-investment portfolio. In 2014, Mr. Sabia will be eligible to receive deferred and co-invested incentive compensation, increased or decreased by the Caisse's average absolute return.

The other employment conditions to which Mr. Sabia is entitled are aligned with the Caisse's policies and comply with parameters set out in the Regulation Respecting Internal Management. He received $40,000 in annual fringe benefits and participated in the Caisse's Employee Group Insurance Plan.

For the duration of his mandate, Mr. Sabia waived participation in any pension plan. He also waived severance pay, whatever the cause. However, given mandatory participation in the Basic Pension Plan for Management under the provisions of the Pension Plan of Management Personnel (based on CARRA rules), Mr. Sabia must participate despite his waiver. In 2011, contributions to the mandatory basic plan represented an annual cost of $14,726 to the Caisse.

In 2011, the total compensation of the President and Chief Executive Officer, including deferred and co-invested incentive compensation, for a superior performance, was 59% lower than the maximum direct compensation potential of the reference market, made up of his peers at the eight pension funds. For a superior performance, a gap of approximately $2.5 million exists between the total compensation of the President and Chief Executive Officer and the maximum direct compensation potential provided by policies of companies included in the reference market.

Compensation of the President and CEO and the five most highly compensated executives for 2009-2011

The Caisse's Board of Directors recognizes the importance of qualified leadership, and firmly believes that its endorsed policies and programs:

- Provide competitive compensation in a fiercely competitive market for talent, where the Caisse competes in a global market to generate the expected returns;
- Achieve the strategic objectives that help fulfill the Caisse's mission.

In accordance with the Act respecting the Caisse de dépôt et placement du Québec, the Caisse discloses below, for itself and its wholly owned subsidiaries, the compensation of the President and Chief Executive Officer and that of the five most highly compensated executives under its direct authority (see Table 62, p. 122).

Report of the Human Resources Committee

TABLE 8a

REFERENCE MARKET – INVESTMENT DUTIES

- Addenda Capital
- Air Canada
- Alberta Investment Management Corporation
- ATB Financial
- BIMCOR
- British Columbia Investment Management Corporation
- Canada Deposit Insurance Corporation
- Canada Post Corporation
- Canadian Broadcasting Corporation
- City of Edmonton
- CN Investment Division
- Connor, Clark & Lunn Financial Group
- Cordiant Capital
- CPP Investment Board
- Credit Union Central of Manitoba
- Desjardins Group
- Fiera Sceptre
- Greystone Managed Investments Inc.
- Halifax Regional Municipality Pension Plan
- Healthcare of Ontario Pension Plan (HOOPP)
- HEB Manitoba
- HSBC Bank Canada
- Hydro-Québec
- Industrial Alliance Insurance and Financial Services
- Insurance Corporation of British Columbia
- Intact Investment Management
- Jones Collombin Investment Counsel
- Leith Wheeler Investment Counsel
- Lucie and André Chagnon Foundation
- Matrix Asset Management
- Mclean & Partners
- MD Physician Services
- Montreal Police Benevolent & Pension Association
- Montrusco Bolton Investments
- National Bank of Canada
- New Brunswick Investment Management Corporation
- Nexus Investment Management
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Pension Board
- Ontario Teachers' Pension Plan (OTPP)
- OPSEU Pension Trust
- Optimum Asset Management
- Pembroke Management
- Professionals' Financial
- Robitaille Asset Management
- Royal Bank of Canada
- Société de Transport de Montréal
- Sun Life Financial
- Telus Communication
- Tetrem Capital Management
- The Canadian Medical Protective Association
- The Civil Service Superannuation Board
- The Great-West Life Assurance Company
- The Public Sector Pension Investment Board (PSP Investments)
- The Toronto-Dominion Bank
- Workers' Compensation Board Alberta
- Workplace Safety and Insurance Board

TABLE 8

REFERENCE MARKET – NON-INVESTMENT DUTIES

- AbitibiBowater
- Agropur Cooperative
- Air Canada
- Alcoa Canada
- ArcelorMittal Canada
- AstraZeneca Canada
- Bank of Montreal
- BCE
- Bell Aliant Regional Communications
- Bell Helicopter Textron Canada Limited
- Bombardier Transportation Canada
- Canadian Broadcasting Corporation
- Canadian National Railway Company
- CN Investment Division
- COGECO
- Desjardins Group
- Domtar
- Ericsson Canada
- Gaz Métro
- General Electric Canada
- Hydro-Québec
- Imperial Tobacco Canada
- Intact Financial Corporation
- Intact Investment Management
- Laurentian Bank of Canada
- Lombard Canada
- Loto-Québec
- McKesson Canada
- Merck Canada
- Microsoft Canada
- Molson Coors Canada
- Power Corporation of Canada
- Rio Tinto Canada
- Rolls-Royce Canada
- SGI Canada
- SNC-Lavalin Group
- Standard Life Financial
- Telus Communication
- Tembec
- The CSL Group
- The Great-West Life Assurance Company
- The Public Sector Pension Investment Board (PSP Investments)
- TMX Group
- UAP
- Uni-Select
- VIA Rail Canada
- Videotron
- Yellow Media

TABLE 9

REFERENCE MARKET – PRESIDENT AND CEO

- Alberta Investment Management Corporation
- BIMCOR
- British Columbia Investment Management Corporation
- CPP Investment Board
- Healthcare of Ontario Pension Plan (HOOPP)
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- The Public Sector Pension Investment Board (PSP Investments)

Report of the Human Resources Committee

TABLE 62

SUMMARY OF THE COMPENSATION OF THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES FOR 2009-2011

Name and main position	Fiscal year	Base salary ($)	Incentive compensation[1] ($)	Other compensation ($)	Direct compensation[2] ($)	Pension plan's value[3] ($)
Michael Sabia	2011	500,000	400,000	40,000	940,000	N/A
President and CEO[4]	2010	500,000	N/A	40,000	540,000	N/A
	2009	403,846	N/A	32,308	436,154	N/A
Roland Lescure	2011	450,000	660,000	30,000	1,140,000	226,200
Executive Vice-President and	2010	450,000	780,000	30,000	1,260,000	179,200
Chief Investment Officer	2009	110,769	N/A	407,385	518,154	29,100
Normand Provost	2011	395,000	655,000	30,000	1,080,000	270,000
Executive Vice-President, Private Equity and	2010	362,885	712,500	30,000	1,105,385	307,600
Chief Operations Officer[5]	2009	348,558	300,000	28,365	676,923	234,300
Daniel Fournier	2011	450,000	715,000	285,000	1,450,000	510,300
President, Real Estate group and	2010	196,330	420,000	313,022	928,352	191,200
Executive Vice-President, Real Estate[6]						
Claude Bergeron	2011	375,000	275,000	296,667	946,667	103,800
Executive Vice-President and	2010	329,066	325,000	296,667	950,733	214,700
Chief Risk Officer[7]	2009	305,177	350,000	25,038	680,215	237,200
Bernard Morency	2011	375,000	260,000	280,000	915,000	303,800
Executive Vice-President,	2010	375,000	250,000	280,000	905,000	180,200
Depositors and Strategic Initiatives[8]	2009	136,250	300,000	301,762	738,012	32,900

1. As mentioned on page 117 of this annual report, executives must defer a minimum of 40% of their awarded incentive compensation calculated in a co-investment portfolio, as required under the incentive compensation program. In 2013, executives will be eligible to receive a deferred and co-invested incentive payment increased or decreased by the Caisse's mean absolute return. The amounts deferred and co-invested until 2013 regarding 2010 are presented in the 2010 Annual Report on page 112. The amounts deferred and co-invested until 2014 regarding 2011 are: $800,000 for Mr. Sabia, $440,000 for Mr. Lescure, $670,000 for Mr. Provost, $585,000 for Mr. Fournier, $275,000 for Mr. Bergeron and $390,000 for Mr. Morency.
2. The direct compensation value includes the salary, annual incentive compensation paid and other compensation. It does not include deferred and co-invested incentive compensation and the value of the pension plan.
3. The value of the pension plan equals the present value of the pension benefits earned during the year and any compensatory change that occurred during the year. This value corresponds to the change due to compensatory items, as presented in Table 63 of this annual report.
4. Upon his appointment, Mr. Sabia waived his participation in any incentive compensation program for 2009 and 2010. In addition, he waived participation in any pension plan for the duration of his mandate. However, participation in the Pension Plan of Management Personnel is mandatory under CARRA rules. For details, visit http://www.carra.gouv.qc.ca/ang/regime/rrpe/rrpe_s03.htm.
5. In March 2012, the responsibilities of Chief Operations Officer, assumed by Mr. Provost since April 30, 2009, were transferred to Mr. Morency. Having carried out his management mandate with Operations, Mr. Provost remains responsible for the Caisse's infrastructure and private equity. His new title is presented on page 137 of this annual report.
6. Mr. Fournier received a lump-sum indemnity staggered over several years as compensation for money he had to waive upon ceasing his previous activities. In 2011, Mr. Fournier received a final amount of $255,000.
7. Mr. Bergeron received, in recognition of his past and ongoing contribution to the active management and restructuring of the ABTN file, a lump sum of $266,667 in 2011.
8. Mr. Morency received a lump-sum indemnity staggered over several years as compensation for professional fees he had to waive upon his appointment by ceasing to provide consulting services to clients other than the Caisse. This amounted to $250,000 in 2011. Since March 2012, Mr. Morency has been in charge of managing Operations, in addition to his existing duties. His new title is presented on page 136 of this annual report.

TABLE 63

PENSION SUMMARY OF THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES

Name and main position	Years of credited service[1]	Annual benefits[2] ($) At year-end	Annual benefits[2] ($) At age 65	Accrued obligation at start of year[3] ($)	Variation due to compensatory items[4] ($)	Variation due to non-compensatory items[5] ($)	Accrued obligation at year-end[3] ($)
Michael Sabia President and CEO[6]	2.8	7,100	24,400	0	0	0	0
Roland Lescure Executive Vice-President and Chief Investment Officer	2.2	80,600	488,800	332,600	226,200	127,100	685,900
Normand Provost Executive Vice-President, Private Equity and Chief Operations Officer	31.6	259,200	409,200	1,710,100	270,000	345,000	2,325,100
Daniel Fournier President, Real Estate group and Executive Vice-President, Real Estate	1.4	51,600	252,300	239,200	510,300	60,500	810,000
Claude Bergeron Executive Vice-President and Chief Risk Officer	31.2	198,300	322,800	1,037,700	103,800	122,000	1,263,500
Bernard Morency Executive Vice-President, Depositors and Strategic Initiatives	2.4	46,800	114,300	261,000	303,800	40,300	605,100

1. This is the number of years of credited service in the basic plan.
2. The annual benefits equal the amount of the pension payable under the Basic and Supplemental Plans at the end of the year or at age 65.
3. The obligations do not include those of the Basic Plan since employer and employee contributions are remitted to CARRA, which assumes the liability for the benefits. The Caisse's contribution was approximately $14,726 per executive in 2011.
4. The variation is due to compensatory items, including the annual cost of pension benefits, base salary changes, plan changes or the awarding of additional years of service.
5. The variation is due to non-compensatory items, including interest accrued on the accrued obligation at the beginning of the year, actuarial gains and losses associated with non-compensatory items and changes in actuarial assumptions.
6. Mr. Sabia waived participation in any pension plan. However, participation in the Pension Plan of Management Personnel is mandatory under CARRA rules. For details, visit http://www.carra.gouv.qc.ca/ang/regime/rrpe/rrpe_s03.htm.

Report of the Human Resources Committee

TABLE 94

SUMMARY OF SEVERANCE PAY FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES

Name and main position	Precipitating event	Theorical amount payable ($)
Michael Sabia President and CEO[1]	Contract termination	0
Roland Lescure Executive Vice-President and Chief Investment Officer[2]	Non-voluntary termination	900,000
Normand Provost Executive Vice-President, Private Equity and Chief Operations Officer[3]	Non-voluntary termination	395,000
Daniel Fournier President, Real Estate group and Executive Vice-President, Real Estate[2]	Non-voluntary termination	900,000
Claude Bergeron Executive Vice-President and Chief Risk Officer[4]	Non-voluntary termination	750,000
Bernard Morency Executive Vice-President, Depositors and Strategic Initiatives[4]	Non-voluntary termination	750,000

1. No severance pay is payable even if the departure is not voluntary.
2. This executive's employment contract provides severance pay in the event of dismissal without just cause, which equals twice his annual base salary.
3. This executive's employment contract does not include a specific condition related to his employment termination. His termination indemnity severance pay is based on the Caisse's guidelines on the subject, which provides one month of base salary for each year of service – up to a maximum of 12 months.
4. This executive's employment contract provides severance pay in the event of dismissal without just cause, which equals his annual base salary, plus an amount that equals his annual target incentive compensation.

TABLE 61

BENCHMARKING OF POTENTIAL MAXIMUM DIRECT COMPENSATION AND TARGET DIRECT COMPENSATION FOR A SUPERIOR PERFORMANCE FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES[1]

	Reference Market[2,3]		Caisse
Position	Maximum direct compensation[4] ($)	Target direct compensation[5] ($)	Direct compensation in 2011 ($)
President and CEO[7]	4,249,311	2,208,958	940,000
Executive Vice-President and Chief Investment Officer[8]	3,935,000	1,842,000	1,140,000
Executive Vice-President, Private Equity and Chief Operations Officer[8]	3,280,500	1,564,500	1,080,000
President, Real Estate group and Executive Vice-President, Real Estate[8]	3,611,650	1,732,850	1,450,000
Executive Vice-President and Chief Risk Officer[8,9]	1,595,600	928,200	946,667
Executive Vice-President, Depositors and Strategic Initiatives[8]	N/A	N/A	915,000

1. Direct compensation presented in 2011 is aligned with the principle of "earned" compensation, which we define in accordance with the Income Tax Act as compensation that is "paid in cash and taxable."
2. As stipulated in the Regulation Respecting Internal Management, potential total compensation in the 75th percentile of their respective reference markets was used for the President and Chief Executive Officer and non-investment duties. The 90th percentile of the reference market was used for investment duties.
3. Potential direct compensation seen in the 90th percentile of a reference market subsegment was used for the investment duties of the Executive Vice-President and Chief Risk Officer. This subsegment includes companies in the financial services sector.
4. The market maximum direct compensation, for a superior performance, presents the potential maximum direct compensation provided by the corporate policies in the market that are positioned in the 3rd quartile for the President and Chief Executive Officer and in the 4th quartile for other duties. These theoretical amounts do not include the value of the pension plans and include the value of fringe benefits and long-term compensation granted in the past and payable during the year.
5. The market target direct compensation, for a superior performance, presents the potential target direct compensation provided by corporate policies in the market positioned in the 3rd quartile for the President and Chief Executive Officer and in the 4th quartile for other duties. These theoretical amounts do not include the value of pension plans, but include the value of fringe benefits and long-term compensation granted in the past and payable during the year.
6. These amounts reflect direct compensation paid in 2011, which does not include deferred and co-invested incentive compensation (see Note 1 in Table 62) and the value of the pension plan, but they include the value of fringe benefits. The deviation from the reference market is due to the application of the transition period provided for in the incentive compensation program (see page 115 of this annual report) and by the fact that there was no other deferred amount payable in 2011.
7. Towers Watson, Compensation of the President and Chief Executive Officer Study, Caisse de dépôt et placement du Québec, 2012.
8. Towers Watson, Compensation of Executive Committee Members Study, Caisse de dépôt et placement du Québec, 2012.

Report of the Risk Management Committee

HIGHLIGHTS

01 Refined the Caisse's risk management tools, particularly those used for credit risk measurement and the tests used to simulate market stress.

02 Examined the risk-return ratios for specialized portfolios and the Caisse overall.

03 Reviewed the enterprise risk management process and strengthened operational risk management practices.

THE RISK MANAGEMENT COMMITTEE

The Board of Directors established the Risk Management Committee to assist the Audit Committee with its responsibility of implementing a risk management process.

MANDATE

The Committee's mandate is to establish oversight guidelines and policies related to risk management. These guidelines and policies are intended to maintain the business, financial and operational risks assumed by the Caisse in the course of its operations at an appropriate level.

During the year, the Committee, in collaboration with the Governance and Ethics Committee, reviewed its mandate and that of its Chair.

A full description of the Risk Management Committee's mandate can be found in the Governance section of the Caisse's website (www.lacaisse.com).

Composition (as at December 31, 2011)

- Chair: Réal Raymond
- Members: Pierre Fitzgibbon, François R. Roy and Ouma Sananikone
- Guest member: A. Michel Lavigne, Chair of the Audit Committee

The Board Chairman attends meetings. The other Board members took turns attending Committee meetings, as observers.

ACTIVITY REPORT

Number of meetings held in 2011: 10

The Committee has various mechanisms to provide the Audit Committee and Board with the necessary assurance regarding the implementation of a risk management process. The Committee:

- Provided a verbal and written report on its activities to the Board after each meeting;
- Submitted copies of its minutes to the Audit Committee and the Board;
- Invited the Chair of the Audit Committee to each meeting.

The Committee held meetings regularly without the presence of senior management.

The report below, which describes the issues that were subject to discussions and decisions during the year, was approved by the Committee members.

Risk management oversight guidelines and policies
The year 2011 was marked by strong volatility in financial markets, which necessitated increased monitoring of these markets throughout the year. See the Risk Management section on page 51 of this report for a detailed presentation of changes in risk measurements and management's actions to continue improving risk management.

As for the Committee, in 2011 it monitored all the work related to risk management, including the integration of daily risk-return, the establishment or strengthening of frameworks and processes, and improvements to risk management tools.

The Committee fulfilled its responsibilities, primarily as follows:

- Reviewed and monitored an underweight strategy in the Equity portfolios due to increased market risk, particularly related to the European sovereign debt crisis.
- Examined the risk-return reports of an investment group's specialized portfolios or of the Caisse overall, at each Committee meeting.
- Reviewed the investment policies of certain specialized portfolios to better manage investment and risk activities and make recommendations to the Board concerning risk limits and benchmark indexes, among other things.
- Analyzed, and recommended to the Board for approval, amendments to the integrated risk management policy, mainly affecting market risk management and the measurement of certain authorization limits.
- Examined and adopted the amendments in the guideline regarding authorizations of financial instruments and other activities not provided for in the specialized portfolios' investment policies in order to optimize the process for new investment activities.
- Reviewed the method for analyzing counterparty credit risk and recommended to the Board for approval a new risk oversight process for issuers, requiring the development of detailed credit analyses on the debt securities in the portfolio.
- Discussed the oversight in place regarding concentration risk management.
- Discussed the investment process for the Canadian Equity portfolio and the liquidity of investments in that portfolio.
- Examined a report on the review of all financial derivatives held in the Caisse's portfolios, changes to be made in their oversight and monitoring of the related work.
- Reviewed the decision-making process concerning hedging of foreign exchange risk in certain portfolios.
- Examined the enterprise risk management process and discussed strengthening operational risk management practices, including the establishment of the Operational Risks Committee (ORC), a subcommittee of the Executive Committee, chaired by the head of the Risk group and composed of representatives of the Caisse's different sectors.
- Discussed the reorganization of the Risk group, aiming to enhance the effectiveness and efficiency of risk management activities and to align them with the Caisse's strategic direction.
- Reviewed the Risk group's business plan and followed up at each Committee meeting.
- Received accountability reports on compliance and internal controls.

Investment proposals
- Reviewed and recommended investment proposals under the Board's authority, considering the analysis of the team responsible for the transaction, the project risk analysis and, more specifically, its impact on the risk level and concentration of the specialized portfolio and the Caisse's overall portfolio, as well as the investment's compliance with risk oversight policies and guidelines.
- Discussed the risk-return relationship for each investment proposal submitted to the Committee.
- Received the report on the monitoring of investment proposals authorized by the Board and the Caisse's senior management (not falling under the Board's purview).
- Regularly monitored major investments with a particular impact on the risk level and concentration of the specialized portfolio and the Caisse's overall portfolio.

Depositors
- Analyzed the certificates of compliance with the depositors' investment policies and the investment policies of specialized portfolios.

USE OF EXTERNAL EXPERT SERVICES

The Risk Management Committee did not use any external expert services in 2011.